

CITY OF GARDNER, KANSAS

STATEMENT OF NET ASSETS

December 31, 2005

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit Airport Association
Assets:				
Deposits and investments	\$ 16,823,932	\$ 10,933,352	\$ 27,757,284	\$ 101,995
Receivables, net of allowance for uncollectibles:				
Taxes	2,629,515	-	2,629,515	-
Accounts	-	1,697,148	1,697,148	1,864
Intergovernmental	523,379	-	523,379	-
Special assessments	3,111,048	-	3,111,048	-
Mortgage loan - current portion	41,265	-	41,265	-
Airport Association loan - current portion	23,344	-	23,344	-
Other	251,707	8,863	260,570	-
Deferred charges	55,894	160,354	216,248	-
Prepaid items	-	-	-	13,009
Inventories	-	285,759	285,759	20,149
Noncurrent receivables:				
Airport Association loan	11,439	-	11,439	-
Restricted deposits	30,364	637,483	667,847	-
Capital assets, net of accumulated depreciation:				
Land	2,279,848	2,023,632	4,303,480	301,500
Construction in progress	3,133,045	11,833,535	14,966,580	-
Buildings	4,113,865	-	4,113,865	1,231,606
Improvements	1,145,668	-	1,145,668	47,426
Infrastructure	15,634,388	59,661,915	75,296,303	249,909
Machinery and equipment	821,751	211,127	1,032,878	10,712
Vehicles	751,365	455,764	1,207,129	-
Total assets	51,381,817	87,908,932	139,290,749	1,978,170
Liabilities:				
Accounts payable	262,205	1,870,518	2,132,723	2,320
Accrued expenses	133,125	63,041	196,166	-
Accrued interest payable	331,257	674,852	1,006,109	-
Unearned revenue	2,237,351	-	2,237,351	3,705
Liabilities payable from restricted assets	30,364	637,483	667,847	-
Bond anticipation notes payable	11,642,768	8,477,232	20,120,000	-
Noncurrent liabilities:				
Due within one year	1,128,296	3,029,037	4,157,333	23,344
Due in more than one year	12,887,616	31,480,158	44,367,774	11,439
Total liabilities	28,652,982	46,232,321	74,885,303	40,808
Net assets:				
Invested in capital assets, net of related debt	14,068,012	37,238,650	51,306,662	1,806,370
Restricted for:				
Debt service	3,079,207	-	3,079,207	-
Streets	4,322,113	-	4,322,113	-
Other purposes	974,028	-	974,028	-
Unrestricted	285,475	4,437,961	4,723,436	130,992
Total net assets	\$ 22,728,835	\$ 41,676,611	\$ 64,405,446	\$ 1,937,362

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 2,487,540	\$ 1,348,564	\$ 1,467,749	\$ -	\$ 328,773	\$ -	\$ 328,773	\$ -
Public safety	2,133,175	4,737	68,279	-	(2,060,159)	-	(2,060,159)	-
Public works	1,814,204	-	586,475	1,087,882	(139,847)	-	(139,847)	-
Culture and recreation	1,191,341	446,685	16,750	-	(727,906)	-	(727,906)	-
Interest on long-term debt	912,018	-	-	-	(912,018)	-	(912,018)	-
Total governmental activities	8,538,278	1,799,986	2,139,253	1,087,882	(3,511,157)	-	(3,511,157)	-
Business-type activities:								
Electric	7,065,972	10,240,759	-	50,000	-	3,224,787	3,224,787	-
Water	2,045,852	3,639,347	-	-	-	1,593,495	1,593,495	-
Wastewater	3,176,131	3,518,583	-	-	-	342,452	342,452	-
Total business-type activities	12,287,955	17,398,689	-	50,000	-	5,160,734	5,160,734	-
Total primary government	\$ 20,826,233	\$ 19,198,675	\$ 2,139,253	\$ 1,137,882	(3,511,157)	5,160,734	1,649,577	-
Component unit:								
Airport Association	\$ 261,838	\$ 260,203	\$ -	\$ -	-	-	-	(1,635)
General revenues:								
Property taxes					2,311,209	-	2,311,209	-
Sales taxes					1,566,055	-	1,566,055	-
Franchise taxes					337,916	-	337,916	-
Excise taxes					1,455,739	-	1,455,739	-
Transient guest tax					34,338	-	34,338	-
Unrestricted investment earnings					497,681	532,024	1,029,705	2,217
Transfers					329,158	(329,158)	-	-
Total general revenues and transfers					6,532,096	202,866	6,734,962	2,217
Change in net assets					3,020,939	5,363,600	8,384,539	582
Net assets, beginning of year as previously stated					19,482,358	36,461,251	55,943,609	1,936,780
Prior period adjustment					225,538	(148,240)	77,298	-
Net assets, beginning of year as restated					19,707,896	36,313,011	56,020,907	1,936,780
Net assets, ending					\$ 22,728,835	\$ 41,676,611	\$ 64,405,446	\$ 1,937,362

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2005

	General	Debt Service
Assets:		
Deposits and investments	\$ 2,704,332	\$ 258,152
Receivables (net of allowance for uncollectibles):		
Taxes	2,337,387	283,650
Special assessment	-	3,111,048
Intergovernmental	218,742	-
Mortgage loan	41,265	-
Other	249,969	-
Restricted cash	30,364	-
Due from other funds	-	-
Total assets	<u>\$ 5,582,059</u>	<u>\$ 3,652,850</u>
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 102,367	\$ -
Accrued payroll	133,125	-
Temporary notes payable	-	-
Other	30,364	-
Deferred revenue	1,994,965	3,394,698
Due to other funds	-	-
Total liabilities	<u>2,260,821</u>	<u>3,394,698</u>
Fund balances:		
Unreserved, reported in:		
General fund	3,321,238	-
Debt service fund	-	258,152
Special revenue funds	-	-
Capital projects funds	-	-
Total fund balances	<u>3,321,238</u>	<u>258,152</u>
Total liabilities and fund balances	<u>\$ 5,582,059</u>	<u>\$ 3,652,850</u>

See accompanying notes to basic financial statements.

North Center Street	Street Improvement	Other Governmental Funds	Total Governmental Funds
\$ 203,786	\$ 4,322,113	\$ 9,335,549	\$ 16,823,932
-	-	8,478	2,629,515
-	-	-	3,111,048
132,000	-	172,637	523,379
-	-	-	41,265
-	-	36,521	286,490
-	-	-	30,364
-	-	2,231,688	2,231,688
<u>\$ 335,786</u>	<u>\$ 4,322,113</u>	<u>\$ 11,784,873</u>	<u>\$ 25,677,681</u>
\$ 24,499	\$ -	\$ 135,339	\$ 262,205
-	-	-	133,125
-	-	11,642,768	11,642,768
-	-	-	30,364
-	-	-	5,389,663
-	-	2,231,688	2,231,688
<u>24,499</u>	<u>-</u>	<u>14,009,795</u>	<u>19,689,813</u>
-	-	-	3,321,238
-	-	-	258,152
-	4,322,113	1,275,341	5,597,454
<u>311,287</u>	<u>-</u>	<u>(3,500,263)</u>	<u>(3,188,976)</u>
<u>311,287</u>	<u>4,322,113</u>	<u>(2,224,922)</u>	<u>5,987,868</u>
<u>\$ 335,786</u>	<u>\$ 4,322,113</u>	<u>\$ 11,784,873</u>	<u>\$ 25,677,681</u>

CITY OF GARDNER, KANSAS

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS

December 31, 2005

Total fund balances in Governmental Funds Balance Sheet	\$ 5,987,868
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,879,930
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	3,152,312
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(14,291,275)</u>
Net assets of governmental activities	<u>\$ 22,728,835</u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended December 31, 2005

	<u>General</u>
Revenues:	
Taxes:	
Property	\$ 2,016,837
Sales	1,566,055
Franchise	337,916
Excise	-
Special assessments	-
Intergovernmental	1,282,352
Licenses and permits	684,967
Charges for services	423,579
Fines and fees	282,659
Loan revenue	35,378
Investment earnings	79,060
Other	71,359
Total revenues	<u>6,780,162</u>
Expenditures:	
Current:	
General government	2,079,287
Public safety	2,059,535
Public works	925,478
Culture and recreation	931,224
Capital outlay	707,192
Debt service:	
Principal	40,337
Interest and fiscal charges	3,591
Other	-
Total expenditures	<u>6,746,644</u>
Excess (deficiency) of revenues over (under) expenditures	<u>33,518</u>
Other financing sources (uses):	
General obligation bonds issued	-
Transfers in	1,321,200
Transfers out	<u>(425,651)</u>
Total other financing sources (uses)	<u>895,549</u>
Net change in fund balances	929,067
Fund balances, beginning of year	<u>2,392,171</u>
Fund balances, ending	<u><u>\$ 3,321,238</u></u>

See accompanying notes to basic financial statements.

<u>Debt Service</u>	<u>North Center Street</u>	<u>Street Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 294,372	\$ -	\$ -	\$ -	\$ 2,311,209
-	-	-	-	1,566,055
-	-	-	-	337,916
-	-	1,455,739	-	1,455,739
298,989	-	-	-	298,989
-	1,087,880	-	892,072	3,262,304
-	-	-	257,528	942,495
-	-	-	-	423,579
-	-	-	-	282,659
-	-	-	-	35,378
13,861	30,481	105,029	269,251	497,682
72,887	-	-	3,092	147,338
<u>680,109</u>	<u>1,118,361</u>	<u>1,560,768</u>	<u>1,421,943</u>	<u>11,561,343</u>
-	-	-	91,304	2,170,591
-	-	-	78	2,059,613
-	-	135	-	925,613
-	-	-	4,762	935,986
-	3,387,407	94,105	5,642,848	9,831,552
654,400	-	-	-	694,737
450,209	48,696	-	271,726	774,222
1,400	56,612	-	38,432	96,444
<u>1,106,009</u>	<u>3,492,715</u>	<u>94,240</u>	<u>6,049,150</u>	<u>17,488,758</u>
<u>(425,900)</u>	<u>(2,374,354)</u>	<u>1,466,528</u>	<u>(4,627,207)</u>	<u>(5,927,415)</u>
-	3,355,000	-	-	3,355,000
390,455	-	-	913,361	2,625,016
(20,028)	-	(329,809)	(383,209)	(1,158,697)
<u>370,427</u>	<u>3,355,000</u>	<u>(329,809)</u>	<u>530,152</u>	<u>4,821,319</u>
(55,473)	980,646	1,136,719	(4,097,055)	(1,106,096)
313,625	(669,359)	3,185,394	1,872,133	7,093,964
<u>\$ 258,152</u>	<u>\$ 311,287</u>	<u>\$ 4,322,113</u>	<u>\$(2,224,922)</u>	<u>\$ 5,987,868</u>

CITY OF GARDNER, KANSAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balances - total governmental funds	\$ (1,106,096)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	8,295,438
Capital contributions are not recorded in the governmental funds because there has been no flow of current financial resources.	(1,137,161)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(331,284)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,604,369)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(95,589)</u>
Change in net assets of governmental activities	<u><u>\$ 3,020,939</u></u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL

GENERAL FUND

Year Ended December 31, 2005

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Taxes:			
Property	\$ 1,896,822	\$ 2,016,837	\$ 120,015
Sales	1,420,000	1,566,055	146,055
Franchise	265,000	337,916	72,916
Intergovernmental	1,136,400	1,282,352	145,952
Licenses and permits	597,500	684,967	87,467
Charges for services	173,700	423,579	249,879
Fines and fees	261,300	282,659	21,359
Loan revenue	42,500	35,378	(7,122)
Investment earnings	26,000	79,060	53,060
Other	31,300	71,359	40,059
Total revenues	<u>5,850,522</u>	<u>6,780,162</u>	<u>929,640</u>
Expenditures:			
General government	2,047,800	2,079,287	(31,487)
Public safety	1,818,400	2,059,535	(241,135)
Public works	1,070,100	925,478	144,622
Culture and recreation	860,500	931,224	(70,724)
Capital outlay	390,000	707,192	(317,192)
Project reserve	3,109,300	-	3,109,300
Debt service:			
Principal	-	40,337	(40,337)
Interest and fiscal charges	-	3,591	(3,591)
Total expenditures	<u>9,296,100</u>	<u>6,746,644</u>	<u>2,549,456</u>
Excess of revenues over (under) expenditures	<u>(3,445,578)</u>	<u>33,518</u>	<u>3,479,096</u>
Other financing sources and (uses):			
Transfers in	1,371,200	1,321,200	(50,000)
Transfers out	(425,000)	(425,651)	(651)
Total other financing sources and (uses)	<u>946,200</u>	<u>895,549</u>	<u>(50,651)</u>
Net change in fund balances	<u>(2,499,378)</u>	<u>929,067</u>	<u>3,428,445</u>
Fund balances, beginning of year	<u>2,499,378</u>	<u>2,392,171</u>	<u>(107,207)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,321,238</u>	<u>\$ 3,321,238</u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL

STREET IMPROVEMENT FUND

Year Ended December 31, 2005

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:			
Excise taxes	\$ 1,700,000	\$ 1,455,739	\$ (244,261)
Interest income	45,000	105,029	60,029
Total revenues	1,745,000	1,560,768	(184,232)
Expenditures:			
Contractual	-	135	(135)
Capital outlay	-	94,105	(94,105)
Project reserve	5,023,502	-	5,023,502
Total expenditures	5,023,502	94,240	4,929,262
Excess (deficit) of revenues over (under) expenditures	(3,278,502)	1,466,528	4,745,030
Other financing uses:			
Transfers out	(301,000)	(329,809)	(28,809)
Net change in fund balances	(3,579,502)	1,136,719	4,716,221
Fund balances, beginning of year	3,579,502	3,185,394	(394,108)
Fund balances, end of year	\$ -	\$ 4,322,113	\$ 4,322,113

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

December 31, 2005

	Electric	Water	Wastewater	Total
Assets:				
Current assets:				
Cash and cash equivalents	\$ 4,188,410	\$ 3,056,834	\$ 3,688,108	\$ 10,933,352
Accounts receivable, net	1,200,255	244,402	252,491	1,697,148
Other receivable	-	8,863	-	8,863
Restricted cash and cash equivalents:				
Customer and developer deposits	571,317	66,166	-	637,483
Inventories	203,729	82,030	-	285,759
Due from other funds	27,556	-	-	27,556
Total current assets	<u>6,191,267</u>	<u>3,458,295</u>	<u>3,940,599</u>	<u>13,590,161</u>
Noncurrent assets:				
Deferred charges	<u>138,370</u>	<u>-</u>	<u>21,984</u>	<u>160,354</u>
Capital assets:				
Land	616,761	918,747	488,124	2,023,632
Construction in progress	6,479,805	2,520,129	2,833,601	11,833,535
Infrastructure	34,793,550	14,268,294	30,970,261	80,032,105
Machinery and equipment	101,976	111,682	177,093	390,751
Vehicles	343,749	256,626	173,082	773,457
Less accumulated depreciation	<u>(12,052,758)</u>	<u>(3,125,748)</u>	<u>(5,689,001)</u>	<u>(20,867,507)</u>
Total capital assets	<u>30,283,083</u>	<u>14,949,730</u>	<u>28,953,160</u>	<u>74,185,973</u>
Total noncurrent assets	<u>30,421,453</u>	<u>14,949,730</u>	<u>28,975,144</u>	<u>74,346,327</u>
Total assets	<u>36,612,720</u>	<u>18,408,025</u>	<u>32,915,743</u>	<u>87,936,488</u>
Liabilities:				
Current liabilities:				
Accounts payable	1,223,037	551,200	96,281	1,870,518
Accrued expenses	25,550	19,605	17,886	63,041
Customer and developer deposits	571,317	66,166	-	637,483
Accrued interest payable	259,895	61,271	353,686	674,852
Due to other funds	-	-	27,556	27,556
Compensated absences	27,354	15,769	15,540	58,663
Bond anticipation notes payable	5,227,384	-	3,249,848	8,477,232
Current portion of bonds and loans payable	1,708,200	386,250	875,924	2,970,374
Total current liabilities	<u>9,042,737</u>	<u>1,100,261</u>	<u>4,636,721</u>	<u>14,779,719</u>
Noncurrent liabilities:				
Bonds payable, net	6,665,834	4,708,950	1,820,000	13,194,784
Construction loan payable	-	-	18,285,374	18,285,374
Total noncurrent liabilities	<u>6,665,834</u>	<u>4,708,950</u>	<u>20,105,374</u>	<u>31,480,158</u>
Total liabilities	<u>15,708,571</u>	<u>5,809,211</u>	<u>24,742,095</u>	<u>46,259,877</u>
Net assets:				
Invested in capital assets, net of related debt	19,670,752	9,854,530	7,713,368	37,238,650
Unrestricted	1,233,397	2,744,284	460,280	4,437,961
Total net assets	<u>\$ 20,904,149</u>	<u>\$ 12,598,814</u>	<u>\$ 8,173,648</u>	<u>\$ 41,676,611</u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended December 31, 2005

	Electric	Water	Wastewater	Total
Operating revenues:				
Charges for sales and services	\$ 10,240,759	\$ 3,639,347	\$ 3,518,583	\$ 17,398,689
Total operating revenues	10,240,759	3,639,347	3,518,583	17,398,689
Operating expenses:				
Administration	537,673	324,566	317,258	1,179,497
Wholesale energy cost	3,328,830	-	-	3,328,830
Generation	1,020,627	-	-	1,020,627
Treatment	-	868,124	904,591	1,772,715
Distribution and collection	738,271	274,862	238,617	1,251,750
Depreciation and amortization	1,052,941	367,607	990,371	2,410,919
Other	2,434	3,286	7,689	13,409
Total operating expenses	6,680,776	1,838,445	2,458,526	10,977,747
Operating income	3,559,983	1,800,902	1,060,057	6,420,942
Nonoperating revenues (expenses):				
Investment earnings	250,073	115,356	166,595	532,024
Capital grant	50,000	-	-	50,000
Interest expense	(379,976)	(207,407)	(676,475)	(1,263,858)
Other	(5,220)	-	(41,130)	(46,350)
Total nonoperating expenses	(85,123)	(92,051)	(551,010)	(728,184)
Income before transfers and contributions	3,474,860	1,708,851	509,047	5,692,758
Capital contributions	35,266	598,811	503,084	1,137,161
Transfers in	2,142	20,028	-	22,170
Transfers out	(899,049)	(319,849)	(269,591)	(1,488,489)
Change in net assets	2,613,219	2,007,841	742,540	5,363,600
Total net assets, beginning of year as previously stated	18,293,543	10,755,670	7,412,038	36,461,251
Prior period adjustment	(2,613)	(164,697)	19,070	(148,240)
Total net assets, beginning of year as restated	18,290,930	10,590,973	7,431,108	36,313,011
Total net assets, end of year	\$ 20,904,149	\$ 12,598,814	\$ 8,173,648	\$ 41,676,611

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Year Ended December 31, 2005

	Electric	Water	Wastewater	Total
Cash flows from operating activities:				
Receipts from customers	\$ 9,721,647	\$ 3,633,447	\$ 3,458,848	\$ 16,813,942
Payments to suppliers	(4,084,372)	(289,667)	(1,015,006)	(5,389,045)
Payments to employees	(842,375)	(658,112)	(649,572)	(2,150,059)
Net cash provided by operating activities	4,794,900	2,685,668	1,794,270	9,274,838
Cash flows from noncapital financing activities:				
Transfers from other funds	2,142	20,028	-	22,170
Transfers to other funds	(899,049)	(319,849)	(269,591)	(1,488,489)
Net cash used in noncapital financing activities:	(896,907)	(299,821)	(269,591)	(1,466,319)
Cash flows from capital and related financing activities:				
Proceeds from general obligation bonds	-	-	1,320,000	1,320,000
Bond issuance costs paid	-	-	(22,548)	(22,548)
Acquisition and construction of capital assets	(6,779,860)	(2,624,948)	(2,829,704)	(12,234,512)
Proceeds from capital grants	50,000	-	-	50,000
Principal paid on general obligation bonds	(1,610,000)	(380,600)	(65,000)	(2,055,600)
Principal paid on bond anticipation payable	(1,012,142)	-	(2,132,858)	(3,145,000)
Principal paid on construction loan payable	-	-	(667,633)	(667,633)
Interest paid on general obligation bonds and construction loan payable	(268,090)	(214,684)	(623,070)	(1,105,844)
Other financing costs	(5,220)	-	(41,130)	(46,350)
Net cash used in capital and related financing activities	(9,625,312)	(3,220,232)	(5,061,943)	(17,907,487)
Cash flows from investing activities:				
Interest received	250,073	115,356	166,595	532,024
Net decrease in cash and cash equivalents	(5,477,246)	(719,029)	(3,370,669)	(9,566,944)
Cash and cash equivalents, beginning of year	10,236,973	3,842,029	7,058,777	21,137,779
Cash and cash equivalents, end of year	\$ 4,759,727	\$ 3,123,000	\$ 3,688,108	\$ 11,570,835
Cash consists of:				
Cash	\$ 4,188,410	\$ 3,056,834	\$ 3,688,108	\$ 10,933,352
Restricted cash for deposit liabilities	571,317	66,166	-	637,483
	\$ 4,759,727	\$ 3,123,000	\$ 3,688,108	\$ 11,570,835

(Continued)

CITY OF GARDNER, KANSAS
STATEMENT OF CASH FLOWS
(Continued)

PROPRIETARY FUNDS

Year Ended December 31, 2005

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 3,559,983	\$ 1,800,902	\$ 1,060,057	\$ 6,420,942
Adjustments to reconcile operating income to net cash provided by operating activities:				
Items not requiring cash:				
Depreciation expense	1,052,941	367,607	990,371	2,410,919
Changes in:				
Receivables	(236,122)	(10,583)	(59,735)	(306,440)
Accounts payable	691,008	514,790	(199,590)	1,006,208
Accrued liabilities	10,080	8,269	3,167	21,516
Customer deposits	(282,990)	4,683	-	(278,307)
Net cash provided by operating activities	<u>\$ 4,794,900</u>	<u>\$ 2,685,668</u>	<u>\$ 1,794,270</u>	<u>\$ 9,274,838</u>

Non-cash capital financing activities:

Capital assets of \$ 1,137,161 were acquired through contributions from governmental funds.

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
December 31, 2005

	<u>Agency Fund</u> <u>Alcohol Safety</u> <u>Action Program</u>
<u>ASSETS</u>	
Deposits and investments	<u>\$ 21,713</u>
<u>LIABILITIES</u>	
Due to others	<u>\$ 21,713</u>

See accompanying notes to basic financial statements.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2005

1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Gardner, Kansas (the City) is located in Johnson County, Kansas and was first incorporated in 1887 under the provisions of the constitution and general statutes of the State of Kansas. The City operates under a Mayor-Council-Administrator form of government and provides a full range of services including public safety (police and fire); public works; community services; recreation and leisure; planning and codes enforcement; general management; and electric, water and wastewater utilities. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The blended component unit, although a legally separate entity, is, in substance, part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Blended Component Unit. The Public Building Corporation (PBC) is a not-for-profit corporation governed by the Mayor, certain City Council members and members of the City's management. The PBC's sole purpose is to acquire assets and construct facilities and infrastructure for the benefit of the City through the issuance of revenue bonds pursuant to Kansas Statute 12-1757. The financial statements of the PBC have been included within the City's reporting entity as a capital projects fund (City Hall). Separately issued financial statements of the PBC are not available.

Discretely Presented Component Unit. The Airport Association is a not-for-profit corporation that operates the municipal airport located in the City and promotes economic development at the facility. The governing body of the Airport Association is appointed by the City Council. The Airport Association's revenue is derived from the rental of hangar and building space, the sale of fuel and the sale of crops grown on airport property. The Airport Association is presented as an enterprise fund. Separately issued financial statements for the Airport Association are not available.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The agency fund does not have a measurement focus and uses the accrual basis of accounting to report its financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. A 90-day availability period is used for revenue recognition for all governmental funds revenues except property taxes for which a 60-day availability period is used. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Property taxes, sales taxes, franchise taxes, interest associated with the current fiscal period, and certain state and federal grants and entitlements are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City. While property taxes are shown on the balance sheet as current assets of the City, they are not recognized as revenue at year end because statutory provisions prohibit their use until the year for which they were raised and budgeted. Instead, they are offset by deferred revenue accounts.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This fund accounts for the general operating transactions of the City including public safety, public works, parks, recreation, and administration.

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The north center street fund is used to account for the acquisition and construction of a major capital street improvement.

The street improvement fund is used to account for receipt of the City's excise fee on platted land. The expenditures in this fund are specifically restricted for the purpose of improvement of existing streets and the construction of new streets necessitated by the City's new development growth.

The City reports the following major proprietary funds:

The electric fund accounts for the operation and maintenance activities of the City's electric distribution system.

The water fund accounts for the operation and maintenance activities of the City's water distribution system.

The wastewater fund accounts for the operation and maintenance activities of the City's wastewater collection and treatment system.

Additionally, the City reports the following fund type:

The agency fund accounts for the amounts collected from the municipal court to be remitted to the State of Kansas.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and wastewater funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments

Cash and investments of the individual funds are combined to form a pool that is managed by the Director of Finance. Each fund's equity in the pool is included in "deposits and investments" in the financial statements. These pooled investments consist of operating accounts, non-negotiable certificates of deposit which are recorded at cost because they are not affected by market rate changes, and investments in the Kansas Municipal Investment Pool (MIP) which is overseen by the State of Kansas. The fair value of the City's position in the MIP is the same as the pool value of the shares. Investment earnings, including interest income, are allocated to the funds required to accumulate interest; other investment earnings are allocated based on management discretion and upon their average daily equity balances. If a fund is not required to account for its own earnings by law or regulation, the earnings are allocated to the General Fund.

For the fiscal year ended December 31, 2005, interest earnings allocated to the various funds were \$ 1,029,705.

The City Hall capital projects fund holds money market accounts totaling \$ 38,844 separate from the pooled cash and investments.

Statement of Cash Flows

For purposes of the statement of cash flows, the City considers deposits and highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2005, cash equivalents consisted of certificates of deposit included in pooled cash described above.

Allowances for Uncollectibles

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 238 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 5% of outstanding property taxes at December 31, 2005.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets

The State of Kansas requires the City to maintain customer utility and developer deposits separate from City assets in the Enterprise Funds. Interest earned on deposits is credited back to customers as required by State statutes. Restricted assets in the general fund consist of court bond deposits.

Property Taxes

The City's property tax is levied each year on the assessed value of all real estate listed as of the prior January 1, the lien date. Assessed values are established by Johnson County. The assessed value at January 1, 2004 upon which the 2005 levy was based was approximately \$ 76,478,000.

Property taxes are legally restricted for use in financing operations of the ensuing year. Accordingly, the City defers revenue recognition until the year for which they are to be used. Property taxes are levied on November 1 of each year. Property owners have the option of paying one-half of the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the following year. Property taxes become delinquent on December 20 of each fiscal year if the taxpayer has not remitted at least one-half of the amount due. The Johnson County Treasurer is the tax collection agent for all taxing entities within the County. Property taxes levied in prior years that remain uncollected are recorded as receivables, net of estimated uncollectibles.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Receivable and Payables

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Deferred revenue is reported as follows:

General fund property taxes receivable	\$ 1,953,700
General fund economic development loan receivable	41,265
Debt service fund property taxes receivable	283,650
Debt service fund special assessment receivable	<u>3,111,048</u>
	<u>\$ 5,389,663</u>

Inventories

Inventories consist of expendable supplies and merchandise held for consumption. All inventories are valued at the lower of cost using the first-in/first-out (FIFO method) or market. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, sidewalks and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives.

Buildings and improvements	20 - 40 years
Machinery and equipment	10 years
Vehicles	10 years
Infrastructure	15 - 50 years

Compensated Absences

The City's policies allow up to one and one half times employees' earned rates of vacation to be carried over to subsequent years. This carryover is payable upon separation from service and ranges from 120 to 240 hours depending upon the employee's length of service.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. In the governmental fund financial statements, a liability for these amounts is reported only when they have matured, for example, as a result of employee resignations and retirements.

Sick leave for full-time employees is earned at the rate of approximately four hours per bi-weekly pay period with a maximum accumulation of 1,040 hours. Regular part-time employees accrue sick leave at a proportional rate to full-time employees. Accumulated sick pay is not vested, and therefore is not recorded in the financial statements.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Concentrations of Credit Risk

Loans are extended, on a fully secured basis, to local businesses under an economic development loan program. Credit is extended to citizens for special assessments levied by the City for capital improvements. These special assessments are secured by liens on the related properties. Unsecured credit is extended to customers for electric, water and sewer fees and charges for services.

Intergovernmental receivables include unsecured amounts due from federal, state and county agencies for various grant programs.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Period Adjustments

Beginning net assets in the water fund were restated to record prior period capital asset additions and to reflect revised estimated historical costs. The effect of this restatement on the beginning net asset balance was an increase of \$ 12,303, while the capital assets increased \$ 12,303. There were no effects on current revenue or expenditures as a result of this adjustment.

Beginning net assets in the governmental activities and the water fund were restated to reclassify debt from governmental funds to proprietary funds. The effect of this restatement on the beginning net asset balance of the governmental activities was an increase of \$ 177,000, while the debt decreased \$ 177,000. The effect of this restatement on the beginning net asset balance of the water fund was a decrease of \$ 177,000, while the debt increased \$ 177,000. There were no effects on current revenue or expenditures as a result of this adjustment.

Beginning net assets in the electric fund were restated to reflect revised estimated historical costs. The effect of this restatement on the beginning net asset balance was a decrease of \$ 2,613, while the capital assets decreased \$ 2,613. There were no effects on current revenue or expenditures as a result of this adjustment.

Beginning net assets in the sewer fund were restated to record prior period capital asset additions and to reflect revised estimated historical costs. The effect of this restatement on the beginning net asset balance was an increase of \$ 19,070, while the capital assets increased \$ 19,070. There were no effects on current revenue or expenditures as a result of this adjustment.

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Prior Period Adjustments (Continued)

Beginning net assets in the governmental activities were restated to record prior period capital asset additions and to reflect revised estimated historical costs. The effect of this restatement on the beginning net asset balance was an increase of \$ 48,538, while the capital assets increased \$ 48,538. There were no effects on current revenue or expenditures as a result of this adjustment.

Pending Governmental Accounting Standards Board Statements

At December 31, 2005, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the City. The statements that might impact the City are as follows:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in April 2004. The objective of this statement is to establish uniform financial reporting standards for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The provisions of this statement are effective for periods beginning after December 15, 2006.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, was issued in May 2004. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the five categories of information it contains -- financial trends information, revenue capacity information, debt capacity information, demographic and economic information, as well as operating information. The provisions of this statement are effective for periods beginning after June 15, 2005.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Summary of Significant Accounting Policies (Continued)

Pending Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued in June 2004. This statement establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. The provisions of this statement are effective for periods beginning after December 15, 2007.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, was issued in December 2004. The objective of this statement is to enhance the usefulness and comparability of net asset information reported by state and local governments by clarifying the meaning of the phrase *legally enforceable* as it applies to restrictions imposed on net asset use by enabling legislation and by specifying the accounting and financial reporting requirements for those restricted net assets. This statement amends GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, paragraph 34. The requirements of this statement are effective for periods beginning after June 15, 2005.

GASB Statement No. 47, *Accounting for Termination Benefits*, was issued in June 2005. This statement establishes standards of accounting and financial reporting for termination benefits. Termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination or as a consequence of the involuntary early termination of services. Termination benefits include early retirement incentives, severance benefits and other termination-related benefits. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of Statement No. 45. For all other termination benefits, this statement is effective for financial statements for periods beginning after June 15, 2005.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$ 14,291,275 difference are as follows:

General obligation bonds payable	\$ (9,908,400)
PBC revenue bonds	(3,905,000)
Capital lease obligations	(54,412)
Accrued interest payable	(331,257)
Deferred charges for issuance costs	55,894
Compensated absences	<u>(148,100)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ (14,291,275)</u></u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$ 8,295,438 difference are as follows:

Capital outlay	\$ 9,256,301
Depreciation expense	<u>(960,863)</u>
Net adjustment to increase net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u><u>\$ 8,295,438</u></u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

2 - Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities (Continued)

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$ 2,604,369 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ (3,355,000)
Issuance costs of general obligation bonds	55,894
Principal repayments:	
General obligation debt	374,400
Special assessment debt	225,000
PBC lease revenue bonds	55,000
Capital lease obligations	<u>40,337</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at change in net assets of governmental activities	<u>\$ (2,604,369)</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$ 95,589 difference are as follows:

Compensated absences	\$ 3,090
Accrued interest	<u>(98,679)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (95,589)</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

3 - Stewardship, Compliance and Accountability

Budgetary Information

Applicable Kansas statutes require that budgets be legally adopted for the general fund, special revenue funds (unless exempted by a specific statute), enterprise funds and the debt service fund. All budgets are prepared utilizing the modified accrual basis. A legal operating budget is not required for the capital projects funds and the airport special revenue fund.

The Statutes provide for the following sequence and timetable in adoption of budgets:

- a. Preparation of proposed budget for the succeeding calendar year on or before August 1 of each year.
- b. Publication of proposed budget on or before August 5 of each year.
- c. A minimum of ten days' notice of public hearing, published in a local newspaper, on or before August 15 of each year.
- d. Public hearing on or before August 15 of each year.
- e. Adoption of final budget on or before August 25 of each year.

Kansas statutes permit transferring budgeted amounts from one object or purpose to another within the same fund; however, such statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures in an individual fund. The City Administrator is authorized to approve over-expenditures at the departmental level or transfers of budgeted appropriations between departments. However, management may not amend a fund's total budgeted expenditures without Council approval. The legal level of budgetary control is the fund level. Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City. Kansas statutes permit original budgets to be increased for previously unbudgeted increases in revenue other than ad valorem property taxes. The City must first publish a notice of public hearing to amend the budget. Ten days after publication, a public hearing is held and the governing body may amend the budget at that time. There were no budget amendments in 2005.

Kansas Statutes require the City to prepare budgets using the encumbrance method of accounting. Under this method, commitments such as purchase orders and contracts, in addition to disbursements and accounts payable, are recorded as expenditures. The City is not currently using the encumbrance method of accounting.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3 - Stewardship, Compliance and Accountability (Continued)

Deficit Fund Balance

The North Moonlight, 167th Street, Lincoln Lane, Moonlight & Main, New Century, 175th & Moonlight Intersection, University Park, Kill Creek Drive/Waterline, Center Street Commons and Kill Creek Sewer capital projects funds had deficit fund balances of \$ 37,708, \$ 221,092, \$ 129,080, \$ 91,499, \$ 1,704,551, \$ 193,953, \$ 938,962, \$ 759,224, \$ 51,761, and \$ 93,795, respectively, as of December 31, 2005. The funds incurred expenditures for which permanent financing had not yet become available.

Excess of Expenditures Over Appropriations

Expenditures and transfers out exceeded appropriations in the Capital Improvement Reserve Fund by \$ 210,595 and in the Park Improvement Reserve Fund by \$ 9,407.

4 - Deposits and Investments

At December 31, 2005, the City had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>
State of Kansas Municipal Investment Pool	< 1 year	\$ 17,688,547
Money market mutual fund	< 1 year	38,844

Credit risk

Kansas statutes authorize the City, with certain restrictions, to deposit or invest in temporary notes, no-fund warrants, open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, the State of Kansas Municipal Investment Pool, or to make direct investments. The City has an investment policy which does not impose limitations beyond those of the State of Kansas. The City's investments in the Municipal Investment Pool were rated AAAf/S1+ by Standard & Poors.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

4 - Deposits and Investments (Continued)

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. Kansas statutes require that deposits be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of the City. The carrying amount of deposits for the City was not exposed to custodial credit risk.

The Airport Association does not have a policy covering custodial credit risk. The carrying amount of deposits for the Airport Association was not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, but requires that to the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. The City is not exposed to significant interest rate risk.

5 - Loans Receivable

The mortgage loan receivable of \$ 41,265 at December 31, 2005 consists of an economic development loan the City financed through a second mortgage on the sale of a parcel of land with annual payments of principal and interest through 2006.

During 2002, the City made a loan to the Airport Association for airport improvements. At December 31, 2005, the receivable balance was \$ 34,783 and is included in noncurrent liabilities on the Airport Association component unit column of the statement of net assets.

Future maturities of amounts owed to the City from the Airport Association are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 23,344	\$ 657	\$ 24,001
2007	11,439	88	11,527
	<u>\$ 34,783</u>	<u>\$ 745</u>	<u>\$ 35,528</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)6 - Capital Assets

Capital asset activity for the primary government for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,410,254	\$ 869,594	\$ -	\$ 2,279,848
Construction in progress	2,761,364	6,151,796	(5,780,115)	3,133,045
Total capital assets not being depreciated	4,171,618	7,021,390	(5,780,115)	5,412,893
Capital assets being depreciated:				
Buildings	4,808,413	13,395	-	4,821,808
Improvements	1,566,412	146,320	-	1,712,732
Infrastructure	16,282,466	6,271,741	-	22,554,207
Machinery and equipment	1,108,759	117,937	-	1,226,696
Vehicles	1,064,353	333,751	(15,083)	1,383,021
Total capital assets being depreciated	24,830,403	6,883,144	(15,083)	31,698,464
Less accumulated depreciation for:				
Buildings	(586,477)	(121,466)	-	(707,943)
Improvements	(484,808)	(82,256)	-	(567,064)
Infrastructure	(6,361,023)	(558,796)	-	(6,919,819)
Machinery and equipment	(299,207)	(105,738)	-	(404,945)
Vehicles	(548,853)	(92,607)	9,804	(631,656)
Total accumulated depreciation	(8,280,368)	(960,863)	9,804	(9,231,427)
Total capital assets being depreciated, net	16,550,035	5,922,281	(5,279)	22,467,037
Governmental activities capital assets, net	<u>\$ 20,721,653</u>	<u>\$ 12,943,671</u>	<u>\$ (5,785,394)</u>	<u>\$27,879,930</u>

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)6 - Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,741,276	\$ 282,356	\$ -	\$ 2,023,632
Construction in progress	3,619,339	10,854,316	(2,640,120)	11,833,535
Total capital assets not being depreciated	5,360,615	11,136,672	(2,640,120)	13,857,167
Capital assets being depreciated:				
Infrastructure	75,326,485	4,705,620	-	80,032,105
Machinery and equipment	390,751	-	-	390,751
Vehicles	615,443	169,501	(11,487)	773,457
Total capital assets being depreciated	76,332,679	4,875,121	(11,487)	81,196,313
Less accumulated depreciation for:				
Infrastructure	(18,053,729)	(2,316,461)	-	(20,370,190)
Machinery and equipment	(142,609)	(37,015)	-	(179,624)
Vehicles	(271,737)	(57,443)	11,487	(317,693)
Total accumulated depreciation	(18,468,075)	(2,410,919)	11,487	(20,867,507)
Total capital assets being depreciated, net	57,864,604	2,464,202	-	60,328,806
Business-type activities capital assets, net	\$ 63,225,219	\$ 13,600,874	\$ (2,640,120)	\$ 74,185,973

CITY OF GARDNER, KANSAS
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6 - Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 177,394
Public safety	45,514
Public works	618,835
Culture and recreation	<u>119,120</u>

Total depreciation expense - governmental activities	<u><u>\$ 960,863</u></u>
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Business-type activities:

Electric	\$ 1,052,941
Water	367,607
Wastewater	<u>990,371</u>

Total depreciation expense - business-type activities	<u><u>\$ 2,410,919</u></u>
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CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)6 - Capital Assets (Continued)

Capital asset activity for the Airport Association component unit for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 301,500	\$ -	\$ -	\$ 301,500
Total capital assets not being depreciated	301,500	-	-	301,500
Capital assets being depreciated:				
Buildings	1,574,903	-	-	1,574,903
Equipment	-	13,390	-	13,390
Improvements	54,433	-	-	54,433
Infrastructure	384,462	-	-	384,462
Total capital assets being depreciated	2,013,798	13,390	-	2,027,188
Less accumulated depreciation for:				
Buildings	(300,878)	(42,419)	-	(343,297)
Equipment	-	(2,678)	-	(2,678)
Improvements	(4,285)	(2,722)	-	(7,007)
Infrastructure	(124,162)	(10,391)	-	(134,553)
Total accumulated depreciation	(429,325)	(58,210)	-	(487,535)
Total capital assets being depreciated, net	1,584,473	(44,820)	-	1,539,653
Airport Association capital assets, net	\$ 1,885,973	\$ (44,820)	\$ -	\$ 1,841,153

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

7 - Defined Benefit Pension Plans

Plan Description

The City participates in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, Kansas 66603-3803) or by calling 1-800-228-0366.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute from January through June 2005 was 4.01% and from July through December 2005 was 4.21%. The City employer contributions to KPERS for the years ending December 31, 2005, 2004, and 2003 were \$ 113,852, \$ 94,613, and \$ 82,249, respectively, equal to the statutory required contributions for each year. The KP&F uniform participating employer rate established for fiscal years beginning in 2005 is 11.69%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The contributions to KP&F for the years ending December 31, 2005, 2004, and 2003 were \$ 150,115, \$ 103,675, and \$ 68,925, respectively, equal to the statutory required contributions for each year.

CITY OF GARDNER, KANSAS

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

8 - Defined Contribution Plan

The City has established a Section 457 deferred compensation plan for those full-time employees not covered by the KP&F program. The plan administrator International City/County Management Association establishes the annual employee and employer contribution rates for those participating in KPERS as the difference between the rates under the KP&F and KPERS programs. For employees not yet eligible for KPERS, the rates are the same as those for the KP&F program. For 2005, the City's contributions were \$ 96,469.

9 - Risk Management

The City is exposed to various risks of loss related to torts; that is, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years. There have not been significant reductions in claims from prior years.

The City obtains workers' compensation and employee health insurance through its membership in the Kansas Eastern Region Insurance Trust (KERIT) and the Mid-America Regional Council Insurance Trust (MARCIT), whose members consist of local cities and counties. KERIT is a risk-sharing pool organized under the insurance laws of the State of Kansas which self-insures workers' compensation and other related expenses up to certain limits and reinsures additional excess amounts up to certain limits. The City pays annual premiums to KERIT based upon historical experience and legal requirements mandated by the State of Kansas. The trust agreement allows for member assessments in the event claims and expenses exceed KERIT's self-insured retention limit. MARCIT operates as a purchasing pool to provide medical and dental insurance coverage on both a self-insured and conventional basis. The City does not anticipate any additional assessments in excess of premiums paid as a result of its participation in these trusts.